



# Arizona State Senate **Background Brief**

November 27, 2006

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## **HAYDEN-WINKELMAN SCHOOL DISTRICT**

### **INTRODUCTION**

The Hayden-Winkelman Unified School District (HWUSD) is a rural district located in Gila County; its student population is centered in the towns of Hayden and Winkelman. The principal economic activity in the area is mining and smelting copper ore. The HWUSD has approximately 500 students and operates four schools: Winkelman Primary, Winkelman Intermediate, Lenor Hamby Junior High and Hayden High.

### **DEVALUATION OF ASSESSED PROPERTY**

Since 2002, HWUSD has experienced financial difficulties due to the devaluation of assessed property (mining) and high interest bonds issued in the mid-1990s, resulting in high property tax rates.

For the 2005 tax year, the combined (primary and secondary) tax rate for property in the HWUSD was \$23.96 per \$100 of assessed value compared to the statewide average of \$11.56. Due to severe flooding, declining copper prices and reduction in mining operations, the property values in the HWUSD and surrounding areas have declined over 86 percent in the past ten years. The devaluation is also due to the state's phase down of the assessment ratio of mining property from 30 to 20 percent.

### **HWUSD Property Tax Rates and Property Valuation**

Year	Primary Tax Rate	Secondary Tax Rate	Combined Tax Rate	Assessed Property Valuation
2005	11.8875	12.0797	23.9672	6,000,141
2004	9.712	15.9769	25.6889	6,029,838
2003	10.072	23.7403	33.8123	6,600,284
2002	7.8742	14.7854	22.6596	9,702,495
2001	7.505	16.0355	23.5405	9,631,759

Note: Data provided by Arizona Tax Research Association

In 1993 and 1994, prior to the decline and the enactment of Arizona's current system of school capital finance, taxpayers in the district approved \$8.5 million in bonds for school repairs,

infrastructure and computer technology. At the time, HWUSD's assessed property valuation was approximately \$30 million compared to approximately \$6 million in 2005. In order to generate the revenues necessary to repay the school bonds and to compensate for declining property values, the HWUSD increased the secondary tax rate. At the peak of the financial difficulties, the HWUSD's secondary property tax rate grew to over \$23 per \$100 of assessed valuation.

A portion of the HWUSD's bonds were noncallable and could not be refinanced. Although other portions of the bonds could be refinanced, the risk associated with the volatile property tax rates and declining property valuation made the bonds difficult to refinance.

### ***UNCOLLECTIBLE PROPERTY TAX REVENUES***

Funding for Arizona school districts is determined through a formula that assumes two major sources of revenue: local property taxes and state aid. The school finance formula, which determines the amount of state aid, assumes that all local property taxes are collectible. However, in some districts, a few taxpayers account for more than one-half of the revenue collected. Therefore, uncollectible or delinquent property tax revenues in these districts may result in a budget shortfall. Prior to 2004, school districts had no recourse other than a budget cut when tax collections were delinquent, as state law did not permit school districts to receive any temporary funding from the state to backfill expected property tax revenue shortfall.

In 2003, the mining company ASARCO, which operates a smelter in the Town of Hayden, failed to pay its property taxes due to bankruptcy issues. ASARCO's mine accounts for approximately 54 percent of the HWUSD's assessed property. Because of ASARCO's failure to pay, the HWUSD was forced to cut its operating budget to meet payroll demands.

### ***LEGISLATIVE REMEDIES***

The Legislature partially addressed these issues in 2004. Laws 2004, Chapter 341, allows

school districts to receive supplemental state aid if the county treasurer in which the district is located certifies that more than 20 percent of the primary property tax revenues in the district are delinquent. This was applied prospectively only; however, Laws 2004, Chapter 278, was also enacted to appropriate \$3.2 million to HWUSD to redeem a portion of its outstanding bonds. As a condition of the loan, the HWUSD was required to levy a secondary tax to repay the money in five annual installments, beginning July 1, 2011. Interest was set at four percent per year, and payments could not exceed \$830,000 per year. Additionally, the HWUSD, through July 1, 2015, was prohibited from proposing or conducting any election to approve any budget override to issue bonds or to incur any other form of indebtedness.

Laws 2004, Chapter 278, also established the Joint Legislative Study Committee on Hayden-Winkelman Property Taxes to analyze indebtedness, expenditures, property taxes and other revenues of the HWUSD and the Town of Hayden and to consider all possible solutions for long-term relief and stability. The Committee adopted several recommendations, including the disincorporation of the Town of Hayden and consolidation of HWUSD with the Ray Unified School District.

Laws 2006, Chapter 353, appropriated \$1.9 million to the HWUSD to pay the remaining outstanding bonds in full through an agreement negotiated with bondholders, resulting in savings to the school district taxpayers of approximately \$1.5 million. The loan requires repayment to the state in three annual installments beginning on July 1, 2008. The legislation also caps, through July 1, 2015, the maximum primary tax rate that HWUSD can levy at \$11.8875 minus any reductions resulting from truth in taxation laws and prohibits HWUSD from proposing or conducting an election to approve a budget override, bonds or any other indebtedness.

### ***ADDITIONAL RESOURCES***

- 2005 Property Tax Rates & Assessed Values, Arizona Tax Research Association